

MEMORANDUM

TO: PIP Lenders and Community Agents

FROM: Bill Parker, Property Improvement Program Coordinator

SUBJECT: Program Changes

DATE: October 6, 2005 (effective immediately)

This memorandum is intended to announce the following changes to the MSHDA Property Improvement Program (PIP):

- **Raising Loan Limit from \$25,000 to \$50,000 on PIP loans for one unit**
- **Raising Loan Limit on Rental Loans or Multi-Unit PIP loans from \$12,000 per unit to \$25,000 per unit, and maximum loan from \$60,000 to \$100,000**
- **Lowering Interest Rate from 8% to 6% For Owner-Occupied Loans of \$10,000 or more and a Loan To Value ratio of <80%**
- **Replacement Housing PIP Loans Now Eligible up to \$50,000**
- **Longer term for PIP loans greater than \$25,000 and Rental loans over \$60,000**
- **Increase on the Origination fee from 1% to 2% (maximum \$1,000) for rental loans**

Raising Loan Limit from \$25,000 to \$50,000 on PIP loans for single unit properties

The maximum PIP loan amount for a single family (1 unit) owner-occupied property is being increased from \$25,000 to \$50,000.

There will be an equity test for loans over \$25,000. MSHDA will require that the MSHDA lien plus any other superior lien on the property (i.e. the Cumulative Loan to Value Ratio) not exceed 100% of the value of the property. MSHDA must be either in 1st lien or 2nd lien position (no lower). Absent an appraisal, MSHDA will generally consider that the improvements will increase the market value by 50% of the costs of the improvement. To calculate "market value" after improvements the following formula can be used (see sample forms attached).

State Equalized Value (SEV) X 2 + 50% X costs of improvements = market value

Example: A property has an SEV of \$50,000. The improvements to the property equal \$40,000.

$2 \times \$50,000 = \$100,000 + \$20,000 (.5 \times \$40,000) = \mathbf{\$120,000 \text{ (market value)}}$

The borrower has a first mortgage balance of \$70,000, and the PIP mortgage will be \$40,400 (improvements + 1% borrower origination fee).

$(1^{\text{st}} \text{ lien}) \$70,000 + \$40,400 \text{ (PIP } 2^{\text{nd}} \text{ lien)} = \mathbf{\$110,400} (< \$120,000)$

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If the above formula indicates that the two liens would exceed 100% of the “market value”, the borrower can prove a greater value by providing a certified appraisal of the “after rehabilitation value” of the property, and use the appraised value.

Raising The Loan Limit on Rental Loans or Multi-Unit PIP loans from \$12,000 per unit to \$25,000 per unit, and maximum loan from \$60,000 to \$100,000

The maximum loan for multi-unit structures is being raised from \$12,000 per unit, to \$25,000 per unit, and the maximum loan amount from \$60,000 to \$100,000. There is no equity test for these loans; however, MSHDA must still be in 1st or 2nd lien position.

Lowering Interest Rate from 8% to 6% For Owner-Occupied Loans of \$10,000 or more and a Loan To Value ratio of <80%

MSHDA is lowering the interest rate from 8% to 6% for households with incomes between \$30,000 and \$60,700 (\$69,800 in target areas) financing improvements to owner-occupied properties, if the following conditions are met

- Loan Amount is \$10,000 or greater
- The Cumulative Loan to Value ratio is 80% or lower

The same formula as utilized above can be used to see if the LTV is below 80% (see sample forms).

Example: A borrower owns a property with an SEV of \$40,000 and applies for a PIP loan for improvements of \$24,000. The borrower has a first mortgage balance of \$50,000.

$$2 \times \$40,000 \text{ (SEV)} = \$80,000 + \$12,000(.5 \times \$24,000) = \$92,000 \text{ (market value)}$$

$$\text{The 1}^{\text{st}} \text{ mortgage balance of } \$40,000 + \text{PIP loan of } \$24,240 = \$64,240$$

$$\$64,240 / \$92,000 = \mathbf{70\% \text{ LTV}}$$

NOTE: An after rehabilitation appraisal can also be used to establish “market value”

Replacement Housing PIP Loans Now Eligible up to \$50,000

MSHDA will finance loans for “Replacement Housing Units” when a home is not feasible to rehabilitate. The replacement unit must be a new doublewide manufactured or modular unit, or site-built. The minimum square footage must be 1,000 square feet. MSHDA must be in 1st lien position when financing a replacement unit. If the PIP loan for replacement is less than 80% of the value of the home, an 8% loan could be lowered to 6%.

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Longer term for PIP loans greater than \$25,000 and Rental loans over \$60,000

PIP loans over \$25,000 and Rental loans over \$60,000 can have a loan term up to 360 months. Loans under those amounts can have a term up to 240 months.

Increase on the Origination fee from 1% to 2% (maximum \$1,000) for rental loans

Effective for all rental loans with a Note Date on or after January 1, 2006 there will be an increase on the Origination fee from 1% to 2% (with a maximum of \$1,000). This increase is because often these loans are paid off as soon as the work is done and MSHDA does not recover the fee paid to the lender and community.

Except for the increase in the origination fee on rental loans that takes effect January 1, 2006, these changes take effect immediately. Loans closed before this date will not be amended.

Revised PIP brochures and forms that reflect changes are forthcoming. Please call Jodi Pulido at 517-373-1974, or me at 517-373-1462 if you have any questions.

Attachments: "Calculating After Rehabilitation Property Value" and Sample